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RR RUEHWEB

DE RUEHMN #0465/01 1452027
ZNR UUUUU ZZH
R 252027Z MAY 06
FM AMEMBASSY MONTEVIDEO
TO RUEHC/SECSTATE WASHDC 5812
INFO RUCNMR/MERCOSUR COLLECTIVE
RUEHCV/AMEMBASSY CARACAS 0412
RUEHSG/AMEMBASSY SANTIAGO 2856
RUEHLP/AMEMBASSY LA PAZ MAY OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC

RHEHNSC/NSC WASHDC", "UNCLAS MONTEVIDEO 000465

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USDOC FOR ITA/MAC/WBASTIAN
SOUTHCOM FOR POLAD

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E.O. 12958: N/A

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SUBJECT: MERCOSUR AGREES ON STEPS FOR VENEZUELA'S ENTRY
URUGUAYAN MINISTER RAILS AGAINST ARGENTINA AND BRAZIL

REF: MONTEVIDEO 448

¶1. (SBU) Summary: On May 24 in Buenos Aires, the four Mercosur countries and Venezuela agreed on a draft document detailing the necessary steps for Venezuela's entry into the trading bloc. While Venezuela will have to adopt the Common External Tariff (CET) within four years, it will be allowed to join as a full member once the document just negotiated is signed and ratified by all five parliaments. This could presumably occur way before the four-year CET deadline, thus giving Venezuela full membership without having complied with all of the obligations.

¶2. (SBU) Meanwhile in Montevideo, Uruguayan EconMin Astori reacted angrily to warnings to Uruguay by the Argentine and Brazilian foreign ministers about signing trade agreements outside of Mercosur. Astori railed against the double-standards and "imperialist" tendencies of his neighbors, whose attitude had "exceeded all limits". All is not well within Mercosur, although Chavez is getting his way. End Summary.

¶3. (U) According to the negotiated deal, Venezuela will have to subscribe to the Treaty of Asuncion, the Protocol of Ouro Preto and the Protocol of Olivos, and will have four years within which to adopt Mercosur norms and the Common External Tariff (CET). Sensitive products would benefit from a transition period until between 2010 and 2014, depending on the country. While Chavez celebrated in a Caracas press conference the accession of Venezuela to a "new Mercosur", the Argentine MFA released a disclaimer to rectify a previous statement claiming that Venezuela was now a full member. The new statement specified that the draft agreement had not yet been signed, as earlier stated, but that only a text "had been agreed upon".

¶4. (U) In a press interview, the Uruguayan MFA negotiator also threw some cold water on Chavez's boisterous claims. He clarified that the draft document did not hold legal validity until approved by the governments and parliaments of the four current members. "There is a whole mechanism

that will begin to take place no earlier than 2007," this MFA official was quoted as saying. "We still need annexes, ratification documents, a lot of things." Still, the document is expected to be signed by all five countries in July at the Cordoba Summit for the change of presidency.

15. (SBU) Another participant from the Uruguayan MFA provided us with inside details of the negotiations. Chavez had applied strong pressure through a barrage of phone calls, he said, and both Brazil and Argentina had also pressed hard for a deal to emerge quickly. The Venezuelans had opened up with their expected proposal for immediate full membership (reftel). The final compromise deal at least obligates them to adopt the CET within four years. Still, Venezuela will be able to gain full membership once the text is signed and ratified by the five parliaments. It is quite possible then, if such ratification takes place quickly, that Venezuela could become a full member before having adopted the CET. According to the MFA official, Venezuela will also be able to participate in all of Mercosur's external trade negotiations from the time of signature of the document. Along with the pressure, a "'sweetener'" was thrown in to gain Uruguay and Paraguay's approval for the deal, our contact told us, in that a list of specific products from these countries will be allowed to gain immediate duty-free access to the Venezuelan market.

16. (U) Meanwhile in Brasilia, Argentine ForMin Taiana reportedly reiterated that Mercosur statutes prohibit members from signing bilateral trade agreements with third parties. Asked about Uruguay's stated intentions to negotiate several free trade agreements (FTA), Taiana said that this initiative "would be considered in the plenary", in reference to the July Mercosur Summit in Cordoba for the change of presidency. Taiana's statement comes a day after Brazilian ForMin Amorin was quoted in the Brazilian press as having warned Uruguay of the risk of "expulsion" if it negotiated trade agreements outside of Mercosur.

17. (U) In Uruguay, EconMin Astori reacted strongly by defending his country's "new and fundamental decision of international economic insertion" through an expansion of trade relationships with the U.S., India and China. Our policy is "absolutely legitimate, absolutely compatible with our belonging to Mercosur and a reflection of the necessity that a government obviously has to defend the national interest," Astori said. He railed against "the bilateralism between Argentina and Brazil, to the detriment of the small economies of the region," and their imperialist attitude." "The attitudes of Argentina and Brazil in Mercosur have exceeded all imaginable limits," Astori said, adding that a trade bloc "cannot accept that the two most economically powerful countries sign their own bilateral agreements, such as the recent competitive adaptation mechanism," and then prevent other members from pursuing their own interests by looking for other markets.

18. (SBU) Comment: It appears that Chavez got what he wanted from the Buenos Aires meeting. The agreement may very well allow him to become a full member of Mercosur way before he has to take the bitter pill of adopting the CET if, as is likely, the parliaments from all five signatory countries ratify the agreement in short order. This gigantic "hole" in the Mercosur's CET would make Uruguay's request for an FTA waiver pale in comparison. The feeling of frustration from the smaller Mercosur members cannot be understated, as they perceive that the trading bloc's rules that restrict them are made for the larger members to break. The arrival of Venezuela on the scene is likely to increase this tendency. Chavez is known for making his own rules. End Comment.

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